

ACCOUNTING PROCEDURE

TOPIC: Section 9--FMS Processing 5.1	EFFECTIVE DATE: 10/26/86
TITLE: Prompt Payment of Vendor Invoices	REVISION DATE: 11/20/98
AUTHORIZED BY: Cheryl Thompson, Deputy Director	PAGE 1 OF 11

BACKGROUND

The State's Prompt Payment Law (s. 16.528 and 16.53(2)(11)) provides for payment of interest on state order and contract payments that are not made in a timely manner. Payments are timely if mailed within 30 calendar days after receipt of a properly completed invoice or receipt and acceptance of the property or service under the contract, whichever is later.

The Statutes require that if a payment is not paid in a timely manner, then interest expense accrues from the 31st day after receipt of the invoice or receipt of goods and services, whichever is later.

POLICIES

1. Whenever possible, cash discounts for prompt payment (e.g., 2% 10 days/net 30) should be taken if payment can be made in the time allowed. If payments are not made within the allowed discount period, discounts should not be taken.
2. Each organization shall establish time frames and processing standards in order to meet the prompt payment deadlines. These standards should provide for priority payment of those invoices which would cost the most interest if not paid in a timely manner. These standards should be reviewed periodically to determine whether changes are needed to meet the deadlines.

Once a document is keyed into the fiscal system, the processing time to produce the check and get it in the mail is 7 calendar days. Given this requirement, each organization has up to twenty three calendar days from the acceptance of the goods or services received or the date the invoice was received (whichever is later) to have the invoice keyed into FMS. If the receipt and acceptance of goods is later than invoice date, this should be clearly indicated on the invoice document.

3. The Statutes also require that interest is paid at the rate specified in s. 71.82(1)(a), and it requires that interest be compounded on a monthly basis. Currently, the interest rate specified in s. 71.82(1)(a) is 12% per year. An Interest Calculation Table (Attachment C) is provided which identifies the interest factor to be used in determining the amount of interest expense based on compounding interest monthly
4. Prompt payment of invoices within 30 days of receipt is expected for all payments to vendors of goods or services. Where a vendor-vendee

relationship does not exist, although timely payment is desirable, prompt pay does not apply. Payments made for the following are also exempt:

- a. State and non-state employees for reimbursement of expense;
- b. Aids payments to individuals and organizations;
- c. Local assistance payments;
- d. Other units of government (other state agencies, counties, cities, etc.);
- e. Orders or contracts (or portions thereof) which are made from federal funds;
- f. Good faith disputes and improper invoices;
- g. Interest penalties under \$5.00;
- h. Orders or contracts where consequences of nonpayment are provided;
- i. For several commodities, such as electric service, penalties exist in regulations and supersede the Statute. Retainage on construction contracts is often provided for by agreement so these also would supersede Statute;
- j. Vendor agreements to pay invoices cumulatively.

Interest penalties under \$5.00 are considered immaterial and may be disregarded unless the vendor requests the payment. The vendor may make the request either specifically or generally and either before the potential occurrence or subsequent to its accrual.

If the invoice is 100% exempt from Prompt Payment, the preparer should state "Prompt Payment Exempt," and the reason it is exempt, on the invoice, the voucher form DMS-138 or the face sheet, and no further examination is required.

Under s. 16.528(3)(c), Badger State Industries is NOT exempt from prompt pay requirements, as are other agencies under (d) above. As a result, DHFS is required to pay interest on prison industries invoices paid after thirty days, and Badger State Industries is required to pay interest on DHFS invoices not paid within thirty days, unless otherwise exempt, such as federal funds or disputed payment.

When there is a good faith dispute on an invoice or on the receipt of goods, the Statutes provide that if the vendor is notified within 30 calendar days of the invoice or receipt and acceptance of goods or services or the invoice (whichever is later), interest penalties do not apply. "Acceptance" is when the goods or services meet the conditions and terms of the purchase, not when it is delivered to the receiving dock. Often acceptance of major equipment is when it is put into service.

Attachment B is a sample letter, which should be followed for notification of a dispute. A good faith dispute includes faulty goods or unsatisfactory service. When listing the reasons for the dispute, list every one, not just the first one identified.

"Good Faith Dispute" means a contention by an agency that goods delivered or services rendered were of a lesser quantity or quality than ordered or specified by contract, were faulty, or were installed improperly; or any other reason giving cause for withholding of payment by the organization until the dispute is settled.

In order to avoid payment penalties on an improperly completed invoice, a written notification must be sent to the vendor giving the reasons it is improper. This notice must be sent within ten (10) working days of receipt of the improper invoice.

If there is a dispute or an improper invoice, a copy of the notification letter must be attached to the voucher. If an invoice has been misrouted because of the vendor's failure to properly address the invoice, the date received at the proper address will be the receiving date. A written notification must be sent to the vendor identifying the improper address. A copy of the notification must be attached to the voucher.

Late payments using federal funds will be excluded from payment of interest. Where federal funds are to pay an invoice either by an immediate charge to a federal appropriation or eventually through a clearing account or other mechanism, the interest penalty exclusion is to be based on the federal match ratio in the grant or contract document.

5. Documentation is needed to indicate when the goods/services are received, if it is after the invoice date. A receiving stamp, receiving report, or receipt signed and dated should be included with the voucher.
6. When a vendor does not want to be paid on individual invoices, but on the basis of a monthly statement, it is the responsibility of the organization to obtain a written agreement to that effect. A copy of the agreement should be attached to each voucher when processed.
7. Per **FMS PROCESSING 5.0 (Submission of Vouchers to BFS)**, all invoices are required to be date stamped when received. However, if for any reason there is no date stamp indicating when the invoice was received, the invoice date will be used as the receiving date. This will result in fewer days available to process the invoice.
8. The payment for prompt payment interest should be charged to the account class code 32000.

PROCEDURES FOR CENTRALIZED ORGANIZATIONS

The Accounts Payable/Preaudit (AP/P) section within BFS will review the centralized organizations' invoices for prompt pay when they are being processed for payment. Whenever an organization cannot process an invoice within the allowed time frames, the AP/P section will complete a Form DMS-739 (Prompt Payment Compliance Attachment) which will be attached to the invoice being paid. See Attachment A for detailed instructions on completing the Form DMS-739. The form should be completed including a reason for the late payment and appropriate signature.

The AP/P section will add the interest due a vendor to the invoice amount being paid so that the vendor will only receive one check.

The AP/P section is responsible for monitoring invoices which cannot be entered into FMS due to a processing reason such as coding or a budget problem within FMS. In these situations, the AP/P section will review the invoice to determine if interest is due. If so, they will calculate the interest and process it with the invoice amount.

PROCEDURES FOR DECENTRALIZED ORGANIZATIONS

The decentralized organization is responsible for identifying invoices, which should have prompt pay calculated on them. This should be done by putting a notation on the voucher face sheet when it is being returned to the AP/P section. This note can be placed in the comment section of the face sheet and can say "Review for Prompt Pay". If the organization has completed the DMS-739 prompt pay form in the past, they may continue to do so. The prompt pay form should be attached to the face sheet when it is being returned to the AP/P Section.

The organization should only pay the amount of the invoice at this time. If prompt pay interest is due to the vendor, the Bureau of Fiscal Services will pay it at a later time.

After the AP/P section is finished with the original voucher, it will be forwarded to the Lead Accountant for the organization. The Lead Accountant will review the invoice and determine if prompt pay is due the vendor. If so, they will calculate the amount and process a separate voucher through the AP/P section for the prompt payment interest amount.

The delegated organizations should continue to return all the face sheets and invoices to the AP/P section. The AP/P section will forward any face sheets with a prompt pay question to the Lead Accountant.

WISMART REJECTS

The Lead Accountants are responsible for clearing WISMART rejects. If a WISMART reject occurs, the respective Lead Accountant has 3 days to clear the reject. Should there be a delay beyond the three days, the Lead Accountant is responsible to review the invoice for prompt pay. If prompt pay is due, the Lead Accountant is responsible for calculating the interest due and completing the DMS-739 form.

The Lead Accountant is to provide the prompt payment form to the AP/P section so that they can make the payment to the vendor.

ANNUAL REPORT

The Statute requires submission of an annual report of interest paid by each state agency. This report is due to DOA on September 30 of each year.

The Special Services and Financial Statement section within the Bureau of Fiscal Services will prepare this report based on a summary of all payments made using expenditure code 32000 and information on the DMS-739. The annual report is required to include the following information:

- ! total number of vouchers on which interest was paid,
- ! total number on invoices on which interest was paid,
- ! total dollars of interest paid,
- ! major reasons why interest payments needed to be made,
(Organization's Responsibility)
- ! our corrective action plan which indicates how we will
reduce the number and amount of interest paid.

! **NOTE:** One voucher may pay multiple invoices but prompt payment interest is calculated on a per invoice basis.

REFERENCES

Wisconsin Statutes, Sections 16.528, 16.53 (2), and 16.71 (1)
FMS PROCESSING 5.0 (Submission of Vouchers to BFS)
INSTITUTION ACCOUNTING 1.0 (Procedures for Contingent Accounts)

ATTACHMENTS

A Instructions for Completing DMS-739 (Prompt Pay Compliance Attachment)
B Dispute Letter Sample
C Interest Calculation Table

CONTACT PERSON

Sally Acuff, Chief
Special Services Section
(608) 266-9576

ATTACHMENT A

INSTRUCTIONS FOR FMS PROMPT PAYMENT COMPLIANCE ATTACHMENT FORM (DMS 739)

DEPARTMENT OF HEALTH & SOCIAL SERVICES
Division of Management Services
DMS-739 (Rev. 03/88)

STATE OF WISCONSIN

PROMPT PAYMENT COMPLIANCE ATTACHMENT

Pursuant to Wisconsin Statute, Section 16.528 the enclosed check includes interest for the late payment. *Exempt payments are pursuant to Wis. Stat. 16.528.		Interest Payment A	Total Payment B
Org. Number C	Organization Name D	Voucher Number E	
Invoice Amount F	Invoice Number(s) G	Invoice Amount Subject to Interest H	Invoice Amount Not Subject to Interest* I

VENDOR

THIS AND ABOVE SECTION TO BE COMPLETED BY ORGANIZATION. SHADED AREAS FOR BFS USE.

Estimate of Days Late Calculation								
Days in Organization J	(+)	Mailing Days K	(+)	Processing Time 7 Days L	(-)	30 Days	(=)	Estimate No. Days Late M
Late Payment Reason(s) N			Funding Code(s) to Which Interest is to be Charged					
			Amount O	App P	Account 32000	Center Q		% R
					32000			
					32000			
Business Manager Signature S				Date Signed S				
FOR BFS USE								
Interest Calculation Amount Subject to Interest T			(x)	Interest Factor U	(=)	Interest Payment V	Actual Number Days Late W	
Action Taken to Avoid Interest Payment X								
Lead Accountant Signature Y				Date Signed Y				

DISTRIBUTION: Submit all copies to DMS/Bureau of Fiscal Services, P.O. Box 7850, Madison WI 53707

The purpose of this form is to comply with the State's Prompt Payment Law.
The form provides:

- The vendor with information regarding any interest included in payment of invoice.
- A notification to BFS that interest payment is likely.
- A basis upon which to calculate the interest due to the vendor.

SPECIFIC INSTRUCTIONS

- Interest Payment:** Enter the amount of interest to be paid. This calculation shall be made and entered by BFS staff. (Amount of interest to be paid is calculated by multiplying the INTEREST FACTOR, item U, by the AMOUNT SUBJECT TO INTEREST, item T.)
- Total Payment:** Enter the sum of INVOICE AMOUNT, item F, and INTEREST PAYMENT, item A. Completed by BFS only.

For Decentralized Organizations the Business Manager is responsible to complete items C through S excluding shaded areas (A, B, and O).

For Centralized Organizations, the AP/P staff will complete items A through Y.

- C. Org. Number: Enter 3-digit organization number.
- D. Org. Name: Enter organization name.
- E. Voucher Number: Enter the voucher number shown on face sheet or Invoice/Credit Memo Input Form (DMS-138).
- F. Invoice Amount: Enter the net invoice amount.
- G. Invoice Number(s): Enter the invoice number, which is subject to prompt payment.
- H. Invoice Amount Subject to interest: Enter the portion of the invoice amount subject to interest. Do not include amounts from federal appropriations.
- I. Invoice Amount NOT Subject to Interest: Enter portion of the invoice amount not subject to interest. See **FMS PROCESSING 5.1** regarding exempt payments.
- J. Days in Organization: Enter the number of days held by the organization subsequent to receipt of invoice or receipt of goods/services (whichever is later).
- K. and L.
Processing time and Mailing time: Enter the normal time required for processing time (includes mailing time and weekend time). This now takes 7 calendar days.
- M. Estimated No Days Late: Enter the sum of days in organization and processing time (7 days), less 30 days to arrive at the estimated number of days late.
- N. Late Payment reason(s): Enter the reasons for late payment. This will be used later for the report to DOA required by statute.
- O. Amount: BFS staff shall enter the appropriate interest amount for each account distribution line.
- P. APP: Enter the appropriation code related to interest charge.
- Q. Center: Enter the center code related to interest charge.
- R. %: Enter the percentage if the interest is to be charged to more than one account distribution line.

S. Signature/Date: Signature of authorized person and date of submission.

NOTE: BFS Staff is Responsible to Complete Item T Through Y and Shaded Areas (Item A, B, & O)

T. Amt Subject to Int: BFS will enter the amount from item H.

U. Interest Factor: BFS will enter the interest factor.

V. Interest Payment: BFS will calculate and enter the amount of interest to be paid.

W. Actual Number of Days Late: BFS will enter the number of actual days late.

X. Action taken to avoid interest: BFS staff will record action taken.

Y. Signature/Date: BFS Lead Accountant will sign document and date when they complete form for decentralized organizations.

For centralized organizations, staff person in the AP/P section will sign document.

ATTACHMENT B

Vendor Name
Address

Re: NOTICE OF DISPUTE ON PAYMENT

Pursuant to Wisconsin Statute Sections 16.528 (3) (e) and 16.53 (2), notice is given that payment will not be made until the item below is resolved. Wisconsin law requires that notice be given within 10 days if the dispute involves an improperly completed invoice and 30 days if for other "good faith" reasons. Receipt of this letter constitutes notice under Section 16.528 and no payment of interest shall be required for this invoice.

Invoice Number _____ Amount _____

Reasons:

Please contact _____ at _____
(Name) (Telephone)
to resolve payment on this issue.

ATTACHMENT C

- 1) Annual interest rate is 12%.
- 2) Interest is compounded monthly.
- 3) A month is defined as 30 days for interest calculation.
- 4) A year is defined as 360 days for interest calculation.
- 5) To determine the amount of interest expense you perform the following steps:
 - a) Determine if the payment is late (i.e. during the first two years that the Act is effective, payment is late if not made within 45 days. Thereafter, payment is late if not made within 30 days.)
 - b) If it is late, you determine the number of days from the 30th day to the day paid.
 - c) From the table select the interest factor for the number of days determined in b) above.
 - d) Multiply the interest factor times the amount of the payment that is subject to interest expense. This gives the amount of interest expense.

# Days Payment is Made After the 30th Day	Interest Factor	# Days Payment is Made After The 30th Day	Interest Factor	# Days Payment is Made After the 30th Day	Interest Factor
1	0.000333	31	0.010337	61	0.020440
2	0.000667	32	0.010673	62	0.020780
3	0.001000	33	0.011010	63	0.021120
4	0.001333	34	0.011347	64	0.021460
5	0.001667	35	0.011683	65	0.021800
6	0.002000	36	0.012020	66	0.022140
7	0.002333	37	0.012357	67	0.022480
8	0.002667	38	0.012693	68	0.022820
9	0.003000	39	0.013030	69	0.023160
10	0.003333	40	0.013367	70	0.023500
11	0.003667	41	0.013703	71	0.023840
12	0.004000	42	0.014040	72	0.024180
13	0.004333	43	0.014377	73	0.024520
14	0.004667	44	0.014713	74	0.024860
15	0.005000	45	0.015050	75	0.025201
16	0.005333	46	0.015387	76	0.025541
17	0.005667	47	0.015723	77	0.025881
18	0.006000	48	0.016060	78	0.026221
19	0.006333	49	0.016397	79	0.026561
20	0.006667	50	0.016733	80	0.026901
21	0.007000	51	0.017070	81	0.027241
22	0.007333	52	0.017407	82	0.027581
23	0.007667	53	0.017743	83	0.027921
24	0.008000	54	0.018080	84	0.028261
25	0.008333	55	0.018417	85	0.028601
26	0.008667	56	0.018753	86	0.028941
27	0.009000	57	0.019090	87	0.029281
28	0.009333	58	0.019427	88	0.029621
29	0.009667	59	0.019763	89	0.029961
30	0.010000	60	0.020100	90	0.030301

# Days Payment is Made After the 30th Day	Interest Factor	# Days Payment is Made After The 30th Day	Interest Factor	# Days Payment is Made After the 30th Day	Interest Factor
91	0.030644	136	0.046154	181	0.061874
92	0.030988	137	0.046501	182	0.062228
93	0.031331	138	0.046848	183	0.062582
94	0.031675	139	0.047195	184	0.062936
95	0.032018	140	0.047541	185	0.063289
96	0.032362	141	0.047888	186	0.063643
97	0.032705	142	0.048235	187	0.063997
98	0.033048	143	0.048582	188	0.064351
99	0.033392	144	0.048929	189	0.064705
100	0.033735	145	0.049276	190	0.065059
101	0.034079	146	0.049623	191	0.065412
102	0.034422	147	0.049969	192	0.065766
103	0.034766	148	0.050316	193	0.066120
104	0.035109	149	0.050663	194	0.066474
105	0.035453	150	0.051010	195	0.066828
106	0.035796	151	0.051360	196	0.067182
107	0.036139	152	0.051711	197	0.067535
108	0.036483	153	0.052061	198	0.067889
109	0.036826	154	0.052411	199	0.068243
110	0.037170	155	0.052762	200	0.068597
111	0.037513	156	0.053112	201	0.068951
112	0.037857	157	0.053462	202	0.069305
113	0.038200	158	0.053813	203	0.069658
114	0.038543	159	0.054163	204	0.070012
115	0.038887	160	0.054513	205	0.070366
116	0.039230	161	0.054864	206	0.070720
117	0.039574	162	0.055214	207	0.071074
118	0.039917	163	0.055564	208	0.071428
119	0.040261	164	0.055915	209	0.071782
120	0.040604	165	0.056265	210	0.072135
121	0.040951	166	0.056615	211	0.072493
122	0.041296	167	0.056966	212	0.072850
123	0.041645	168	0.057316	213	0.073207
124	0.041991	169	0.057666	214	0.073565
125	0.042338	170	0.058017	215	0.073922
126	0.042685	171	0.058367	216	0.074280
127	0.043032	172	0.058717	217	0.074637
128	0.043379	173	0.059068	218	0.074994
129	0.043726	174	0.059418	219	0.075352
130	0.044073	175	0.059768	220	0.075709
131	0.044420	176	0.060119	221	0.076067
132	0.044766	177	0.060469	222	0.076424
133	0.045113	178	0.060819	223	0.076781
134	0.045460	179	0.061170	224	0.077139
135	0.045807	180	0.061520	225	0.077496